

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 ASUNCION 000675

SIPDIS

STATE FOR WHA/BSC, WHA/EPSC, EB/IFD/OMA
STATE PASS TO USTR FOR SCRININ, LYANG
USAID FOR AA/LAC ADOLFO FRANCO
TREASURY FOR OSIA MAUREEN WAFER
COMMERCE ITA SARAH COOK
NSC FOR MIKE DEMPSEY
SOUTHCOM FOR POLAD
US SOUTHERN COMMAND MIAMI, FLORIDA

SENSITIVE

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [ETRD](#) [PREL](#) [PGOV](#) [PINR](#) [PA](#)

SUBJECT: PARAGUAY'S FINANCE MINISTER RESIGNS

REF: 05 Asuncion 670

1. (U) Sensitive but unclassified - protect accordingly.

2. (U) Summary: President Duarte accepted the resignation of Finance Minister Dionisio Borda today, and shortly thereafter named current Minister of Industry and Commerce Ernst Bergen as Borda's replacement. In naming Bergen, the President praised Borda and said he expected Bergen to maintain fiscal discipline. Prior to the announcement, a contact close to the Vice President assured us that there would be no significant changes to economic policy. The President named Raul Vera, a former President of the Central Bank who had been highly regarded by IMF staff at the time, to replace Bergen. Borda resigned over a longstanding debt dispute between the Ministry of Finance and the Central Bank. End Summary.

3. (U) On May 19, President Duarte Frutos accepted the resignation of Finance Minister Dionisio Borda. After a meeting with the President, Borda told the press that he resigned over a longstanding dispute between the Finance Ministry and the Central Bank (BCP) regarding recapitalization of the BCP. Prior to Borda's press conference, a contact close to Vice President Castiglioni provided us with advance warning of the impending resignation, and assured us that there would be no significant change in economic policy.

4. (U) Less the 45 minutes after Borda's announcement, President Duarte announced that the current Minister of Industry and Commerce, Ernst Bergen, would be the new Minister of Finance. Duarte praised Borda for his contributions and listed a number of them, including legislative successes and macroeconomic stability. He specifically said that he expected Bergen to maintain fiscal discipline, and added that he thought Bergen might be better able to promote job creation. At the MIC, Bergen has strongly supported Paraguay's efforts to improve its IPR enforcement and legal regime. He is a Mennonite known for his honesty and close relationship with the President; he is an engineer and not an economist.

5. (U) President Duarte also announced that he had named Raul Vera to be the new Minister of Industry and Commerce. Vera was the President of the BCP in 2002 when Paraguayan Ambassador to the US, James Spalding, was Finance Minister. The two were highly regarded by the IMF at the time as reformers with solid technical skills. It was only a lack of political support under the former government that kept their efforts from bearing fruit, and which ultimately led both men to resign. We understand that Vera currently lives in the Dominican Republic doing consulting work for one of the IFIs.

6. (U) The dispute that allegedly precipitated Borda's resignation involves bonds issued by the Ministry of Finance to recapitalize the BCP in the mid-1990s. In 1999, the Ministry gave \$100 million of the proceeds of a loan from Taiwan to the BCP to help pay depositors affected by the banking crises of the late 1990s. The Ministry and the BCP signed an agreement by which that payment also canceled the Ministry's debt to the BCP. Former President Gonzalez Macchi issued a Presidential Decree two days before leaving office in August 2003 affirming the agreement. All subsequent BCP Presidents have claimed the agreement was illegal. The President has reportedly sided with the BCP, at the behest, according to the press, of Monica Perez, the new President of the BCP. Borda resigned rather than take part in administrative procedures that would recreate the Ministry's debt.

Comment

17. (SBU) With the naming of Bergen and Vera, it seems likely that the change at the Ministry of Finance will not represent a step backward in terms of reform efforts. A local World Bank contact told us they are not concerned about the change from Borda to Bergen. Bergen may do a better job of earning the trust and support of the private sector than Borda, whose style tended to be more rigid than Bergen's. Since he is not an economist, though, his effectiveness may depend, in part, on the advisors he appoints.

KEANE